ORIGINAL



BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

KRISTIN K. MAYES CHAIRMAN GARY PIERCE

2010 JAN 15 P 2: 51

COMMISSIONER SANDRA D. KENNEDY COMMISSIONER AT COAP COMMISSION DOCKET CONTROL

PAUL NEWMAN

CONSTITUTION.

COMMISSIONER

BOB STUMP

COMMISSIONER

7

8

9

10

11

12

13

14

15

16

17

18

19

2

3

4

5

6

IN THE MATTER OF THE APPLICATION OF SOLARCITY FOR A DETERMINATION THAT WHEN **PROVIDES** IT SOLAR SERVICE TO ARIZONA SCHOOLS. GOVERNMENTS, AND **NON-PROFIT** ENTITIES IT IS NOT ACTING A S A PUBLIC SERVICE CORPORATION PURSUANT TO ART. 15, SECTION 2 OF THE ARIZONA Docket No. E-20690A-09-0346

Arizona Corporation Commission
DOCKETED

JAN 15 2010

DOCKETEDIN

RUCO'S REPLY BRIEF

The Residential Utility Consumer Office ("RUCO") hereby submits its reply brief in the matter of the application of SolarCity ("SolarCity" or "Company") for a determination of whether it is acting as a public service corporation ("PSC") when it provides solar service to Arizona's schools, government or non-profit entities through solar service agreements ("SSAs"). For the following reasons, RUCO maintains that the Company is not acting as a PSC when it provides service in this capacity.

20

21

I. STAFF, SRP AND TEP'S ARGUMENTS NOTWITHSTANDING, SOLARCITY, AND THIRD-PARTY PROVIDERS LIKE SOLARCITY, DO NOT MEET THE TEXTUAL DEFINITION OF A "PUBLIC SERVICE CORPORATION" UNDER ARTICLE 15, § 2 OF THE ARIZONA CONSTITUTION.

22

23

24

There continues to be disagreement on this issue. The Commission's Staff ("Staff"), Salt River Project ("SRP") and Tucson Electric Power ("TEP") maintain that SolarCity is a PSC

¹ In this matter, the Arizona Supreme Court vacated the Court of Appeals ruling that found the Commission had jurisdiction.

² <u>Southwest Transmission Cooperative, Inc. v. ACC.</u>, 213 Ariz. 427, 430, 142 P. 3d 1240, 1243 (2007).

³ Williams v. Pipe Trades Industry Program of Arizona, 100 Ariz. 14, 20, 409 P.2d 720, 726 (1966).

under the plain language of the Arizona Constitution. Staff's Closing Brief ("Staff Brief") at 4, SRP's Closing Brief ("SRP Brief") at 1. The arguments set forth by both Staff and SRP, while interesting, are misplaced. Moreover, controlling case law demands that there be a presumption against regulation. *Arizona Corp. Commission v. Continental Sec. Guards* (App. 1967), 5 Ariz. App. 318, 426, P. 2d 418 vacated 103 Ariz. 410, 443 P.2d 406.¹ The Commission should not find that SolarCity is acting as a PSC.

Staff, SRP and TEP believe that SolarCity is furnishing its customers with electricity. Staff likens SolarCity to the *Southwest Transmission*² case insofar as the possession of the electricity produced is transferred to the customer. Staff Brief at 6. Staff distinguishes the *Williams*³ case where the company in *Williams* retained possession of the commodity in question (water) and the commodity in question was not the actual product being provided (heat). Id. Neither situation is representative of SolarCity's application, but if a comparison to the present case had to be made, of the two, the *Williams* case is closer.

In Williams, the Arizona Supreme Court noted:

The word "furnish" is defined by Webster as "to provide or supply with what is needed, useful or desirable." Webster's Third New International Dictionary, Unabridged. It connotes a transfer of possession. There is, in Kallof' supplying water for heating or cooling purposes, no contemplated transfer of possession.

Williams v. Pipe Trades Industry Program of Arizona, 100 Ariz. 14, 20, 409 P.2d 720, 724 (1966, Emphasis Added). Herein lays the gist of Staff's argument, that "... there is a transfer

of possession that takes place. There has to be." Staff's Brief at 8. Staff's conclusion is misguided. There certainly does not have to be a transfer of possession. The Supreme Court determined that there was no contemplated transfer of possession in the *Williams* case. For other reasons discussed below there is no transfer of possession in SolarCity's situation.

The SSA is simply a financing mechanism which allows SolarCity's customer to take advantage of significant tax and depreciation incentives without prohibitive up-front costs. A-1 at 6. SolarCity provides its customers with the financing, design, installation, operation and maintenance of a solar panel system on the customer's property, the terms of which are described in the SSA. A-1 at 6. The electricity itself is never owned or even possessed by SolarCity. RUCO-1 at 2. The electricity is not transferred or sold to the customer. Id. The electricity is generated on the customer's rooftop. The electricity is owned and possessed by the customer from its inception. Id. Hence, like the case in *Williams*, but for different reasons, "there is no contemplated transfer of possession."

Staff argues that establishing the point when title to the electricity passes in the SSA is simply an "apparent attempt to defeat Commission jurisdiction" and was intentionally included in the SSA for this purpose. Staff Brief at 8-9. The establishment of who has title to the electricity that is generated from financed installation and when the customer gains title is clearly an important and defining legal provision of a Solar Service Agreement. Staff has chosen the Desert Mountain SSA to make its point. Id. at 8. Yet Staff has presented no evidence that shows the "meeting of the minds" between SolarCity and Desert Mountain was to defeat the Commission's jurisdiction, and not to establish when title transfers as the agreement provides — a material and obvious legal consideration of a legal contract. Such bald conclusions are unpersuasive and should be disregarded by the Commission.

Even if the intent of the SSA is to defeat Commission jurisdiction as Staff alludes to, and even if there is an appropriate legal basis for the provision, which there clearly is, then there is no harm. It is neither SolarCity, nor Desert Mountain for that matter that decides whether the Commission has jurisdiction – it is the Commission. If nothing else, *Serv-Yu* has made it clear that the issue of whether or not to regulate should be decided on a case-by-case basis and the intent of the parties is a paramount consideration.

SRP argues that the Constitutional definition of a PSC should be given a broad definition based on several interpretations including the intent of Framers of the Arizona Constitution. SRP Brief at 4- 13. TEP also argues for a broader interpretation. TEP Brief at 5. SRP suggests that based on Oklahoma's constitution, a 1917 US Supreme Court case, and the 1913 code, the Commission should give the PSC definition a broad, almost umbrella like application. SRP at 5-6. As even SRP admits, the era upon which SRP basis its interpretation was a time of "...robber barons, big corporations, and unbridled power. The resultant populist movement sought to place limits on what was viewed as a major threat to the lifestyles of workers and farmers." SRP Brief at 3. But there is nothing in the Constitution, the cases, or any code which suggests that any entity that deals in electricity or other commodity no matter what the circumstances is a PSC. In fact as the Court of Appeals noted, the presumption is against regulation. *Arizona Corp. Commission v. Continental Sec. Guards*, supra. Moreover, the Arizona Supreme Court has made it clear that the Commission cannot interpret the definition too broadly:

We conclude that neither the Constitution nor the statutes give the Corporation Commission the unlimited power to issue certificates of public convenience and necessity. There is no authority to certificate an individual or a corporation 'in furnishing, for profit, hot or cold air or steam for heating or cooling purposes.' Nor can the words 'gas' and

'water' as used in Article 15, § 2 be so strained and distorted out of their normal context as to embrace the proposed uses.

Williams v. Pipe Trades Industry Program of Arizona, 100 Ariz. 14, 21, 409 P.2d 720, 727 (1966).

The reality is that times have changed since Arizona's Constitutional Convention. Perhaps that is why the Arizona Courts frequently acknowledge that this determination must be made on a case by case basis. The Arizona Supreme Court in *Serv-Yu* and the Arizona Court of Appeals in *Southwest Transmission* confirmed that there are factors other than the textual definition that need to be considered when determining if an entity is a PSC. *Serv-Yu*, 70 Ariz. at 237-238, 219 P. 2d. at 325-326, *Southwest Transmission*, 213 AZ. at 430, 142 P.3d at 1243. The application of these considerations further supports a balanced interpretation and not an overly-broad interpretation.

SRP's reliance on a 1917 U.S. Supreme Court case fails to reconcile how Arizona courts have interpreted the meaning of "public service corporation" since the 1910 Constitutional Convention and Arizona's subsequent 1913 Code. The relevant provision of the cited Supreme Court case states: "This construction of the Arizona Constitution by the district court is in harmony with the contemporaneous construction by the (1913) Public Service Corporation Act enacted at the first session of the legislature in the absence of an authoritative decision of the Arizona Supreme Court to the contrary, this legislative construction,ought not to be set aside by this court." (*Van Dyke v. Geary*, 44 U.S. 39, 37 S.Ct. 483 (1917)).

As discussed at length at hearing and in closing briefs, since 1917, Arizona courts have, indeed, issued several controlling opinions regarding the scope of the constitution and

Commission jurisdiction. It is these cases which require: (1) a presumption against regulation⁴; (2) a prohibition against an unfettered power to issue CC&Ns⁵; (3) a declaration that "furnishinig" requires a transfer of possession⁶; and (4) that even when a corporation meets the

The application of the *Serv-Yu* factors here does not support a PSC finding even if the Commission were to conclude that SolarCity meets the textual definition.

textual definition of a PSC, jurisdiction shall be denied if the public interest requires it.

II. EVEN IF THE COMMISSION WERE TO CONCLUDE THAT SOLARCITY IS ACTING AS A PSC UNDER THE CONSTITUTIONAL DEFINITION, SOLARCITY IS NOT ACTING AS PSC UNDER THE SERV-YU FACTORS.

Staff and SRP appear to dismiss from the PSC inquiry the *Serv-Yu* factors. Perhaps that is because the factors favor the position that regulating SolarCity would not be in the public interest. SRP suggests that a *Serv-Yu* analysis on a case by case basis would be unconstitutional. SRP Brief at 13-14. TEP does not go so far. TEP Brief at 5-9. However, no court in Arizona or elsewhere has reached that conclusion. To the contrary, the courts in Arizona still consider the factors in their analysis.

RUCO shares in SRP's frustration with the decision but for different reasons. RUCO does not challenge the Commission's ability to consider the *Serv-Yu* factors. RUCO is in a quandary as to what the *Serv-Yu* case stands for, and how exactly those eight factors should be applied by the Commission. Transcript at 845. RUCO believes, however, that there is some wisdom to considering these factors - the *Serv-Yu* factors, beyond a strict textual application of the Constitution and recognizes that *Serv-Yu* is controlling case law that cannot

⁴ <u>Arizona Corp. Commission v. Continental Sec. Guards (App. 1967)</u>, 5 Ariz. App. 318, 426, P. 2d 418 yacated 103 Ariz. 410, 443 P.2d 406

Williams v. Pipe Trades Industry Program of Arizona, 100 Ariz. 14, 20, 409 P.2d 720, 726 (1966).
 Williams at 20, 409 p.2d 720, 724

⁷ Serv-Yu, at 237-238, 219 P.2d. at 325-326

Merely meeting the textual definition, however, does not establish an entity as a "public service corporation." Sw. Gas, 169 Ariz. at 286, 818 P.2d at 721. To be a "public service corporation," an entity's "business and activities must be such as to make its rates, charges and methods of operation, a matter of public concern, clothed with a public interest to the extent contemplated by law which subjects it to governmental control-its business must be of such a nature that competition might lead to abuse detrimental to the public interest." Trico Elec. Coop., Inc. v. Corp. Comm'n, 86 Ariz. 27, 34-35, 339 P.2d 1046, 1052 (1959) (citing Gen. Alarm, Inc. v. Underdown, 76 Ariz. 235, 262 P.2d 671 (1953)).

• • • • • • •

The fact that an entity may incidentally provide a public commodity is not sufficient to subject it to regulation, it must be in the business of providing a public service. *Nicholson*, 108 Ariz. at 320, 497 P.2d at 818; *Gen. Alarm*, 76 Ariz. at 239, 262 P.2d at 673. In *Serv-Yu*, the Arizona Supreme Court articulated eight factors to be considered in identifying those corporations "'clothed with a public interest' and subject to regulation because they are 'indispensable to large segments of our population.'" *Sw. Gas*, 169 Ariz. at 286, 818 P.2d at 721 Those eight factors are:

- (1) What the corporation actually does.
- (2) A dedication to public use.

- (3) Articles of incorporation, authorization, and purposes.
- (4) Dealing with the service of a commodity in which the public has been generally held to have an interest.
- (5) Monopolizing or intending to monopolize the territory with a public service commodity.
- (6) Acceptance of substantially all requests for service.
- (7) Service under contracts and reserving the right to discriminate is not always controlling.
- (8) Actual or potential competition with other corporations whose business is clothed with public interest.

Id. at 286, 818 P.2d at 721; *Serv-Yu*, 70 Ariz. at 237-38, 219 P.2d at 325-26. The *Serv-Yu* factors act as guidelines for analysis, and we are not required to find all eight factors to conclude that a company is a public service corporation. *Sw. Gas*, 169 Ariz. at 287, 818 P.2d at 722.

Southwest Transmission, 213 AZ. at 431-432, 142 P.3d at 1244-1245.

The Commission should consider the *Serv-Yu* factors as guidelines in considering whether SolarCity is a PSC. Id. Even TEP agrees as much. TEP Brief at 5. The Commission should not distinguish or dismiss those factors as SRP and Staff seem to suggest. Staff's analysis of the *Serv-Yu* factors seems to distinguish many of the factors by arguing that they do not need to be applied in order to find a PSC. For example, according to Staff, the fact that SolarCity's articles of incorporation do not state that it shall operate as a PSC or that there is no other statement of authorization or purpose is of little significance since corporate entity's statements about their authorization could be made for the purpose of avoiding regulation. Staff Brief at 17. The fact that there is no evidence that SolarCity is holding itself out as a monopoly or intends to monopolize the market is not determinative because there are cases in Arizona where the Courts have held that the existence of a monopoly is not necessary in the determination⁸. Staff Brief at 19-20. Nor, according to Staff, is it determinative that a business accepts substantially all requests for service. Id. at 21. Nor is it determinative that the fact that SolarCity provides service under contracts a controlling factor. Id. at 22.

To truly use the Serv-Yu factors as guidelines the Commission should not disregard the simple meaning or apply unequal weight to the Serv-Yu factors. To do so would pretty much dismiss the Serv-Yu analysis, which is not only legally inappropriate but would be clearly

⁸ Staff, however, relies on *Arizona Water Co. v. Ariz. Corp. Comm'n*, 161 Ariz. 389, 391, 778 P.2d. 1285, 1287 (App. 1989) on the factor of public dedication. Staff quotes from that decision where the Court noted: "We conclude that the well owners did not intend to dedicate their well to public use and did not monopolize or intend to monopolize water service in the area. *Serv-Yu*, 70 Ariz. At 239-240, 219 P.2d. at 327." Staff Brief at 15.

results driven. The application of the *Serv-Yu* factors does not support a PSC finding for the reasons set forth in RUCO's Closing Brief. See RUCO's Brief at pages 7-13.

III. IN THE ABSENCE OF COMMISSION REGULATION THE PUBLIC IS STILL PROTECTED EVEN BY A DETERMINATION THAT SOLARCITY IS NOT A PSC.

Staff highlights the benefits of regulation – in particular the enforceable obligation of reliable service that results from regulation. Staff Brief at 27. Staff argues that in the absence of regulation entities engaged in the private sector may choose to discontinue operations and simply breach their contract for service. Id. The Commission should apply common sense when considering this argument.

RUCO takes the protection of ratepayer's interests and the assurance of safe and reliable service very seriously – it is RUCO's job. The benefit of regulation is alluring, frequently necessary, but not absolute. There are situations where regulation would not be the best choice and in fact counterproductive. RUCO believes that the evidence and the reality is that such a situation exists here.

Staff's concern is unfounded for several reasons. At the risk of being repetitive, the SSA arrangement only requires payment from the customer based on the amount of energy generated. A-5, Additional Testimony of Lyndon Rive at 7. With the lease, the customer usually pays a monthly fixed charge regardless of performance. Id. What is the incentive for Solar City to breach the contract? Solar City would not get paid and would have to absorb litigation costs. The nature of the SSA provides adequate protection to the ratepayer.

The risk of loss is the reason why the provider has the incentive to install a good working product. Id. Since the provider does not get paid if the equipment does not generate electricity the provider is encouraged to maintain the product in good working order. This encouragement also serves another important Commission policy objective-the proliferation of

solar power generation which benefits all ratepayers, not just the ratepayers who choose solar service. Since the installer is repaid based on the installation's electrical output, the installer has a monetary incentive to install the system in order to promote the greatest amount of generation. Id. at 12. This is a motivation the installer does not necessarily have when it installs a system that is not financed through a SSA. An added guarantee of reliable service is the ratepayer still can obtain all of his/her electric service through his/her ESP should the solar equipment malfunction. Again, Staff's concern here is not only unfounded but counterproductive to the ratepayer's best interests.

The Commission's jurisdiction over the SSAs is not likely to serve or protect the public's health and safety. This argument, as well as other public interest arguments are developed more fully in RUCO's Closing Brief and will not be repeated here. RUCO Brief at 15 – 18. The point is not to refute each and every one of Staff's public interest arguments. Rather, the point is to show that the normal benefits and reasons for regulation are not applicable here. And to the extent there are benefits to regulation here, they are relatively insignificant, are duplicative and are far outweighed by the potential harm that is likely to result to the proliferation of the solar industry in Arizona if the Commission regulates.

That potential harm is contrary to all of the party's interests in this docket. SolarCity's CEO, Lyndon Rive testified that regulation is likely to "drive out" some if not all of the solar providers from Arizona. A-5, Direct testimony of Lyndon Rive at 5. Regulation represents uncertainty to lenders who are scarce to begin with. Id. Why would one of these lenders prefer to lend in Arizona when it can lend in most other states and not have to worry about the uncertainty associated with regulation? This uncertainty and its negative effect on the growth of distributed solar power has been reiterated by other solar related entities before this

3

5

4

6 7

8 9

10 11

12

13

14

15

16

17

18

19

20

21

22

23

24

Commission. See The Application for a Declaratory Order by the Solar Alliance, Docket No. E-20633A-08-0513 at 3.

Finally, in order to regulate, the Commission must be able to identify a legitimate and non-duplicative public policy for regulation. There has been no legitimate reason set forth for regulation. In fact, all the suggestions were duplicative at best (e.g. a forum for grievances or a central repository for information on installers in Arizona.)

The development of the solar industry is still in its infancy in Arizona. Arizona, perhaps more than any state in the nation, is the best candidate for solar power given the amount of sunshine in this state. It does not make sense to impede and perhaps stifle the development of the industry for what arguably amounts to the benefits of regulation here. Whether SolarCity is a PSC and subject to regulation is clearly the call of this Commission and for the arguments set forth herein, the Commission should not regulate SolarCity.

IV. CONCLUSION

In conclusion RUCO believes that the SSA arrangement between SolarCity and its customers should not be regulated by the Commission.

RESPECTFULLY SUBMITTED this 15th day of January, 2010.

Chief Counsel

1	AN ORIGINAL AND THIRTEEN COPIES of the foregoing filed this 15th day	
2	of January, 2010 with:	
3	Docket Control Arizona Corporation Commission	
4	1200 West Washington Phoenix, Arizona 85007	
5	COPIES of the foregoing hand delivered/	
6	mailed this 15th day of January, 2010 to:	
7	Teena Wolfe Administrative Law Judge	Kenneth C. Sundlof, Jr. Jennings, Strouss & Salmon, P.L.C.
8	Hearing Division Arizona Corporation Commission	201 E. Washington Street, 11 th Floor Phoenix, AZ 85004-2385
9	1200 West Washington	·
10	Phoenix, Arizona 85007	Kelly J. Barr Salt River Project Agricultural
11	Janice Alward, Chief Counsel Legal Division	Improvement & Power District Regulatory Affairs & Contracts, PAB 22 P. O. Box 52025
12	Arizona Corporation Commission 1200 West Washington Phoenix, Arizona 85007	Phoenix, AZ 85072-2025
13		C. Webb Crockett
	Steven M. Olea, Director	Patrick J. Black
14	Utilities Division	Fennemore Craig, P.C.
ļ	Arizona Corporation Commission	3003 N. Central Avenue, Suite 2600
15	1200 West Washington Phoenix, Arizona 85007	Phoenix, Arizona 85012-2913
16		Philip J. Dion, Jr.
	Jordan R. Rose	Tucson Electric Power Company
17	Court S. Rich	One South Church Street, Suite 200
	M. Ryan Hurley	Tucson, Arizona 85702
18	Rose Law Group PC	
	6613 N. Scottsdale Road, Suite 200	Michael W. Patten, Esq.
19	Scottsdale, Arizona 85250	Roshka DeWulf & Patten, PLC 400 East Van Buren Street, Suite 800
20	Michael A. Curtis	Phoenix, Arizona 85004
	William P. Sullivan	a committee was to
21	Larry K. Udall	Deborah R. Scott
-	Curtis, Goodwin, Sullivan, Udall &	Linda J. Benally
22	Schwab, PLC	Pinnacle West Capital Corporation
	501 E. Thomas Road	400 North 5 th Street, MAS 8695
23	Phoenix, Arizona 85012-3205	
2ب	TE HOGHIA, AHZOHA 000 12-0200	Phoenix, Arizona 85004

ı	On all 9 Million on
2	Snell & Wilmer
2	One Arizona Center 400 E. Van Buren Street
3	Phoenix, AZ 85004-2202
3	FIIOeIIIX, AZ 03004-2202
4	Lawrence V. Robertson, Jr.
•	P. O. Box 1448
5	2247 E. Frontage road
	Tubac, Arizona 856-46-1448
6	
	Kenneth Saline
7	160 N. Pasadena
	Mesa, Arizona 85201
8	
	Kevin Fox
9	Keyes & Fox LLP
	5727 Keith Avenue
10	Oakland, CA 94618
	Timethy Heren
11	Timothy Hogan AZ Center for Law in the Public Interest
12	202 E. McDowell Road, Suite 153
12	Phoenix, Arizona 85004
13	
.	Jay Moyes
14	Steve Wene
	Moyes Sellers & Sims Ltd. 1850 N. Central Avenue, Suite 1100
15	Phoenix, AZ 85004
16	
17	By Prnestine Lamble
	Ernestine Gamble
18	Linestine Gamble
40	
19	
20	
20	
21	
- '	
22	
23	
24	
	1